Designing Upstream and Downstream Supply-chain Strategies in Asia

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As supply chains become increasingly global, efficient supply chain management is critical to the success of a company. The objective is for the firm to have a well-designed network of upstream suppliers and downstream retailers to satisfy customers' demands. It includes the movement of products from suppliers to manufacturers to retailers, as well as the movement of funds and information in both directions. Unfortunately, the incentives of the network members may not always be aligned. Therefore, a firm must have a thorough understanding of the strategic incentives of both its suppliers and its retailers. In this article, we will briefly review the expansion decision of a successful distributor and the thought process necessary for making a make /buy decision.

Whether or not a manufacturer should use a distributor is a difficult but crucial decision. For example, a manufacturer must ensure that it can recover both the distribution and intermediary costs. Because these costs can be quite high, the manufacturer may not want to use a distributor; instead, it may prefer to focus on big customers or firms with high volume sales in order to take advantage of economies of scales. Moreover, in a country where the population is low, retailers often pickup the necessary inventory themselves and store it in their own warehouses in order to eliminate the need for a distributor.

Synnex International: Transforming Distribution of High-tech Products

There are other instances where having a distributor may be important. An examination of the rise of Synnex Technology International Corporation (Synnex) reveals some important lessons. Synnex transformed itself from a local agent that distributed electronic parts in Taiwan to a dominant player in the electronic products distribution industry. The two elements that made this expansion possible were: (1) Taiwan has a high density population, and (2) retailers in Taiwan are relatively small and do not have their own warehouses or the capacity to handle the logistic issues. Therefore, a centralized inventory management system is highly desirable and Synnex can function as a main distributor for the smaller firms. In this case, retailers function much like the vending machines used by soft-drink bottlers that carry minimal inventory.

Scotts Miracle-Gro: The Spreader Sourcing Decision

A firm's sourcing strategy is crucial to the firm's survival. Scott Miracle-Gro, the world's largest marketer of branded consumer lawn and garden products, is a case in point. Bob Bawcombe, the director of operations of Scott's Temecula plant, was considering the make/buy decision of the components used to manufacturer fertilizer spreaders. There were some obvious benefits of outsourcing, such as lower costs, the opportunity to take advantage of the supplier's state-of-the-art technology, and the ability to manufacture the product closer to the selling season.

Sanlu Group and the Tainted Milk Crisis

However, there are also some important challenges to this approach that cannot be overlooked. The most important one being that of quality control, for the failure to effectively monitor the quality of a supplier's goods can have severe consequence. The scandal originating with the Sanlu Group, a Chinese dairy company, illustrates the potential magnitude of this problem. Sanlu was experiencing a tremendous growth in demand, and was forced to find a way to satisfy the extra demand. The firm finally decided to purchase milk from an outside supplier but failed to maintain a tight control of the quality of the incoming product. It so happened that one of the suppliers had added Melamine-rich protein powder to its raw milk and the addition of this substance led to sickness in thousands of infants, and to the death of a few. This company's experience is a prime example of the importance of monitoring the quality of a supplier's products carefully.

Another concern when outsourcing is the issue of sole-sourcing. The natural disasters that took place in Japan earlier this year illustrate the importance of diversification. While relying on a single supplier can lead to lower inventory and fixed costs because of economies of scale, this approach also makes it difficult for a firm to recover from an interruption in its supply chain. Another example is the Sony Company. Because it is the only producer of high-end HDCAM-SR video tapes, which are used by film and television producers to record their shows, the earthquake and tsunami in Japan caused outages in Sony's factory and put the industry in a panic mode.

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